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Loto Interactive Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

CONTINUING CONNECTED TRANSACTIONS SERVICES FRAMEWORK AGREEMENT RELATING TO THE BIG DATA CENTRE SERVICES

CONTINUING CONNECTED TRANSACTIONS

On 24 March 2021, Changhe Hydropower, an indirect non wholly-owned subsidiary of the Company, entered into the Services Framework Agreement with Chongqing Yusheng, pursuant to which Changhe Hydropower will provide the Big Data Centre Services to Chongqing Yusheng for a term commencing from the Effective Date and expiring on 31 December 2023 (both dates inclusive).

GEM LISTING RULES IMPLICATIONS

As at the date of this announcement, Chongqing Yusheng is an indirect wholly-owned subsidiary of 500.com. 500.com is a controlling shareholder of the Company and is interested in 127,871,432 Shares, representing 33.74% of the total issued share capital of the Company. Accordingly, Chongqing Yusheng is a connected person of the Company pursuant to the GEM Listing Rules and the transactions contemplated under the Services Framework Agreement will constitute continuing connected transactions of the Company pursuant to Chapter 20 of the GEM Listing Rules.

As one or more of the applicable percentage ratios (as set out in Rule 19.07 of the GEM Listing Rules) in respect of the proposed annual caps under the Services Framework Agreement for each of the three years ending 31 December 2023 is more than 25%, the transactions contemplated under the Services Framework Agreement constitute continuing connected transactions of the Company and are subject to the reporting, announcement, circular, annual review and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Company will convene the EGM to seek approval from the Independent Shareholders for the Services Framework Agreement, the transactions contemplated thereunder and the related proposed annual caps for the period from the Effective Date to 31 December 2023 at the EGM.

GENERAL

An Independent Board Committee comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Services Framework Agreement and the proposed annual caps thereto. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders of the same.

A circular containing, among other things, (i) the details of the Services Framework Agreement; (ii) a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders; and (iv) the notice convening the EGM will be despatched to the Shareholders on or before 19 April 2021.

CONTINUING CONNECTED TRANSACTIONS

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Salient terms of the Services Framework Agreement are set out below:

The Services Framework Agreement

Date: 24 March 2021

Parties involved: (i) Changhe Hydropower; and
(ii) Chongqing Yusheng

Term: For the period commencing from the Effective Date to 31 December 2023 (both dates inclusive)

Condition Precedent

The taking effect of the Services Framework Agreement is conditional upon the Independent Shareholders' approval of the Services Framework Agreement and transactions contemplated thereunder and the related proposed annual caps thereto at the EGM.

Subject Matter

Changhe Hydropower is responsible for providing storage and comprehensive big data centre services in respect of the data processors placed by Chongqing Yusheng in the big data centre operated by Changhe Hydropower in Sichuan. The services include providing electricity and broadband network to and custody of the data processors, conducting daily monitoring to ensure smooth operation of the data processors, supervising server security and troubleshooting, and assisting in the maintenance of the data processors (the “**Big Data Centre Services**”).

Services Fees and Pricing Policy

In consideration of the provision of the Big Data Centre Services, Changhe Hydropower will charge its service fees based on (i) the number of data processors to be placed and operated by the customer at the big data center; (ii) a fixed hourly service rate applicable to each data processors; and (iii) the number of operating hours per month.

In arriving at the fixed hourly service rates, the Group has a standard pricing strategy for the provision of the Big Data Centre Services applicable to all customers (including Chongqing Yusheng). The Group will take into account factors including (i) the model type of the data processors used by the customer, which in turn determines the corresponding utility consumption rates, given different model type of the data processors have different computing power which will impact on the respective electricity costs associated with their operations; (ii) the timeframe for provision of such services, at which the hydro power price would vary due to the seasonality and power consumption pattern during the year; (iii) the number of data processors to be operated by the customers in the big data centres; and (iv) the prevailing market price of the service fees charged by comparable big data centres within the Sichuan Province at the corresponding time; and (v) the labour costs, operating costs and overheads associated with the provision and maintenance of the Big Data Centre Services.

Internal Control

The Group has adopted the following internal control procedures over the continuing connected transactions of the Company:

- (a) Before entering into a continuing connected transaction, the finance department of the Group will review and ensure that the pricing is fair and reasonable by reference to:
 - the prevailing market price of the same or substantially similar services with comparable service scope and quality offered by the Group to its customers. The business unit staff of Changhe Hydropower has substantial experience and industry knowledge in the area of big data centre services. In order to ascertain the comparable prevailing market price, they will attend industry seminars from time to time as well as discuss and understand from the clients to grasp the prevailing market price.

- the historical service fees of similar services and comparable general terms offered by the Group to its customers which are Independent Third Parties. The finance department also performed evaluation and assessment to ensure that the terms under the Services Framework Agreement are not more favorable than the same provided to Independent Third Parties by the Group.
- (b) In case the pricing terms under the relevant continuing connected transactions agreement are applied for the first time or the pricing terms are different from those used previously, the Board will engage an independent financial adviser to review the relevant terms.
- (c) The finance department of the Company will consult with the Group’s chief financial officer in respect of continuing connected transaction compliance issues, who will report to the audit committee of the Company and also provide a confirmation to the audit committee that the continuing connected transactions of the Company which are subject to the annual review and disclosure requirements under the GEM Listing Rules have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and that the Group’s internal control procedures applicable to continuing connected transactions are adequate and effective to ensure that such transactions were so conducted. The audit committee will consider this accordingly.
- (d) The Company’s external auditors will review the continuing connected transactions (which are subject to the annual review and disclosure requirements under the GEM Listing Rules) annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the relevant caps have been exceeded.
- (e) The independent non-executive Directors will review the continuing connected transactions of the Company (which are subject to the annual review and disclosure requirements under the GEM Listing Rules) annually to check and confirm whether such continuing connected transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions were conducted in accordance with the pricing policies set out in such relevant agreements.

Payment Term

The above service fees shall be charged monthly and shall be paid by Chongqing Yusheng within three days after receipt of the invoice from Changhe Hydropower for the previous calendar month.

Prior to the placement and installation of the data processors by Chongqing Yusheng, Chongqing Yusheng shall pay to Changhe Hydropower a security deposit in the amount of RMB20,860,000 for the service period from April to May 2021, while Chongqing Yusheng shall maintain a security deposit in the amount of no less than RMB13,800,000 during the service period of May to October 2021. The actual amount of the security deposit will be adjusted from time to time depending on the actual number of data processors in operation and the applicable fixed hourly service rate during the relevant service period. Upon the expiry of the term of the Services Framework Agreement, Changhe Hydropower will return the security deposit in full to Chongqing Yusheng, provided that Chongqing Yusheng has fully paid all outstanding service fees incurred during the service period.

Proposed Annual Cap and Basis of Determination

The table below sets out the proposed annual caps under the Services Framework Agreement for the three years ending 31 December 2021, 2022, and 2023:

	From the Effective Date to 31 December 2021	From 1 January 2022 to 31 December 2022	From 1 January 2023 to 31 December 2023
Proposed annual cap	RMB146,100,000 (equivalent to approximately HK\$175,320,000)	RMB160,000,000 (equivalent to approximately HK\$192,000,000)	RMB160,000,000 (equivalent to approximately HK\$192,000,000)

The proposed annual caps are determined by reference to (i) the estimated number and model types of data processors to be deployed by Chongqing Yusheng with reference to the number of data processors already owned by and to be purchased by 500.com, the parent company of Chongqing Yusheng as announced; (ii) the estimated deployment of additional data processors by 500.com in light of its future development plan in connection with its expansion to the cryptocurrency mining business; and (iii) the prevailing market price of the service fee charged by big data centres located in the Sichuan province.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Group is principally engaged in (i) the provision of data analysis and storage services; (ii) the distribution of mobile gaming; and (iii) the money lending business in Hong Kong.

The Directors are of view that the Big Data Centre Services are provided in the ordinary and usual course of business of the Group and will bring stable income, reinforce the Group's revenue stream and cash flow, and facilitate the future development plan of the Group. Moreover, the Group considers 500.com, being a company listed on the New York Stock Exchange, to be a reputable and reliable customer, whom has the ability to take up the data processing capacity of the Group in bulk and enhances the Group's economies of scale.

The Directors (except the independent non-executive Directors whose view(s) will be contained in the circular to be despatched to the Shareholders) considered that: (i) the terms and conditions of the Services Framework Agreement were negotiated between the parties on an arm's length basis and are on normal commercial terms, which are fair and reasonable; (ii) the proposed annual caps in respect of the transactions contemplated under the Services Framework Agreement for the period from the Effective Date to 31 December 2023 are fair and reasonable; and (iii) the transactions contemplated therein will be conducted in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole.

GEM LISTING RULES IMPLICATIONS

As at the date of this announcement, Chongqing Yusheng is an indirect wholly-owned subsidiary of 500.com. 500.com is a controlling shareholder of the Company and is interested in 127,871,432 Shares, representing 33.74% of the total issued share capital of the Company. Accordingly, Chongqing Yusheng is a connected person of the Company pursuant to the GEM Listing Rules and the transactions contemplated under the Services Framework Agreement will constitute continuing connected transactions of the Company pursuant to Chapter 20 of the GEM Listing Rules.

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The Company will convene the EGM to seek approval from the Independent Shareholders for the Services Framework Agreement, the transactions contemplated thereunder and the related proposed annual caps for the period from the Effective Date to 31 December 2023 at the EGM.

500.com and its associates will abstain from voting on the resolution(s) approving the Services Framework Agreement, the transactions contemplated thereunder and the related proposed annual caps at the EGM. To the best knowledge, information and belief of the Directors, as at the date of this announcement, no Shareholder (excluding 500.com and its associates) is required to abstain from voting on the resolution(s) approving the Services Framework Agreement, the transactions contemplated thereunder and the related proposed annual caps at the EGM.

GENERAL

An Independent Board Committee comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Services Framework Agreement and the proposed annual caps thereto. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders.

A circular containing, among other things, (i) the details of the Services Framework Agreement; (ii) a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders; and (iv) the notice convening the EGM will be despatched to the Shareholders on or before 19 April 2021.

INFORMATION OF THE PARTIES

The Group

The Group is principally engaged in (i) the provision of data analysis and storage services; (ii) the distribution of mobile gaming; and (iii) the money lending business in Hong Kong.

Changhe Hydropower

Changhe Hydropower is a company established in the PRC with limited liability on 25 April 2019 and its principal business activity is data processing and provision of application software services. As at the date of this announcement, Changhe Hydropower is an indirect 51%-owned subsidiary of the Company. Reference is also made to the announcement jointly issued by the Company and 500.com on 28 January 2021. On 28 January 2021, the Group entered into a conditional acquisition agreement with certain sellers, pursuant to which the Group has conditionally agreed to purchase and the sellers have conditionally agreed to sell the remaining 49% equity interest of the Target) for a cash consideration of RMB88.2 million. Changhe Hydropower will become a wholly-owned subsidiary of the Company upon completion of the acquisition.

Chongqing Yusheng

Chongqing Yusheng, a company incorporated in the PRC, is principally engaged in machine leasing, operation and technical maintenance and encrypted digital mining. It is an indirect wholly-owned subsidiary of 500.com, the controlling shareholder of the Group. 500.com is a company incorporated in the Cayman Islands with limited liability and the shares of which are traded on the New York Stock Exchange under the ticker symbol “WBAI” since 2013. 500.com is committed to becoming a leading cryptocurrency mining enterprise in China. It is also an online sports lottery service provider in China and offers a comprehensive and integrated suite of online lottery services, information, user tools and virtual community venues to its users.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“500.com”	500.com Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the New York Stock Exchange under the ticker symbol “WBAI”, the controlling shareholder of the Company
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Big Data Centre Services”	has the meaning ascribed to it under the paragraph headed “The Services Framework Agreement – Subject Matter in this announcement
“Board”	the board of Directors
“Changhe Hydropower”	甘孜州長河水電消納服務有限公司 (Ganzi Changhe Hydropower Consumption Service Co., Ltd.), a company established in the PRC with limited liability, an indirect non wholly-owned subsidiary of the Company as at the date of this announcement
“Chongqing Yusheng”	重慶宇盛信息技術有限公司 (Chongqing Yusheng Information Technology Co., Ltd.), a company established in the PRC with limited liability, an indirect wholly-owned subsidiary of 500.com
“Company”	Loto Interactive Limited, a company incorporated in the Cayman Islands with limited liability whose Shares are listed on GEM (stock code: 8198)
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules

“Director(s)”	director(s) of the Company
“Effective Date”	the date of the Independent Shareholder’s approval of the Services Framework Agreement
“EGM”	the extraordinary general meeting of the Company to be convened for, among other matters, approving the Services Framework Agreement, the transactions contemplated thereunder and the related proposed annual caps for the period from the Effective Date to 31 December 2023
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, from time to time
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely Dr. Lu Haitian, Mr. Lin Sen and Mr. Huang Jian, established to advise the Independent Shareholders in respect of the terms of the Services Framework Agreement and the proposed annual caps thereto
“Independent Financial Adviser”	Octal Capital Limited, a licensed corporation permitted under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, and being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Services Framework Agreement and the proposed annual caps thereto
“Independent Shareholders”	Shareholders excluding 500.com Limited and its associates
“Independent Third Party(ies)”	any person or company and its ultimate beneficial owner(s), to the best of the Company’s knowledge, information and belief, are third parties independent of the Company and its connected persons

“PRC” or “China”	the People’s Republic of China, which for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Services Framework Agreement”	the services framework agreement dated 24 March 2021 entered into between Changhe Hydropower and Chongqing Yusheng, pursuant to which Changhe Hydropower will provide the Services to Chongqing Yusheng for a term commencing from the Effective Date and expiring on 31 December 2023 (both dates inclusive)
“Share(s)”	the ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

In this announcement, amounts denominated in RMB have been translated into HK\$ at the rate of RMB1 = HK\$1.2. Such conversion rates are for illustration purposes only and should not be construed as representations that the amounts in question have been, could have been or could be converted at any particular rate or at all.

In this announcement, the English translation of Chinese names of the companies incorporated in the PRC is included for information purposes only and should not be regarded as their official English translation.

By Order of the Board
Loto Interactive Limited
Yan Hao

Chief Executive Officer and Executive Director

Hong Kong, 24 March 2021

As at the date of this announcement, the Board of Directors Ms. Zhang Jing (Chairman), Mr. Yan Hao# (Chief Executive Officer), Ms. Huang Lilan#, Mr. Yuan Qiang*, Dr. Lu Haitian+, Mr. Lin Sen+ and Mr. Huang Jian+.*

Executive Director

* *Non-executive Director*

+ *Independent Non-executive Director*

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company’s website at www.lotoie.com.